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WHY BONDS ARE BECOMING AS SPECULATIVE AS STOCKS

NEW TWIST IN MORTGAGES— INFLATION-ADJUSTED PAYMENTS

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Forbes

COMPUTERS/COMMUNICATIONS

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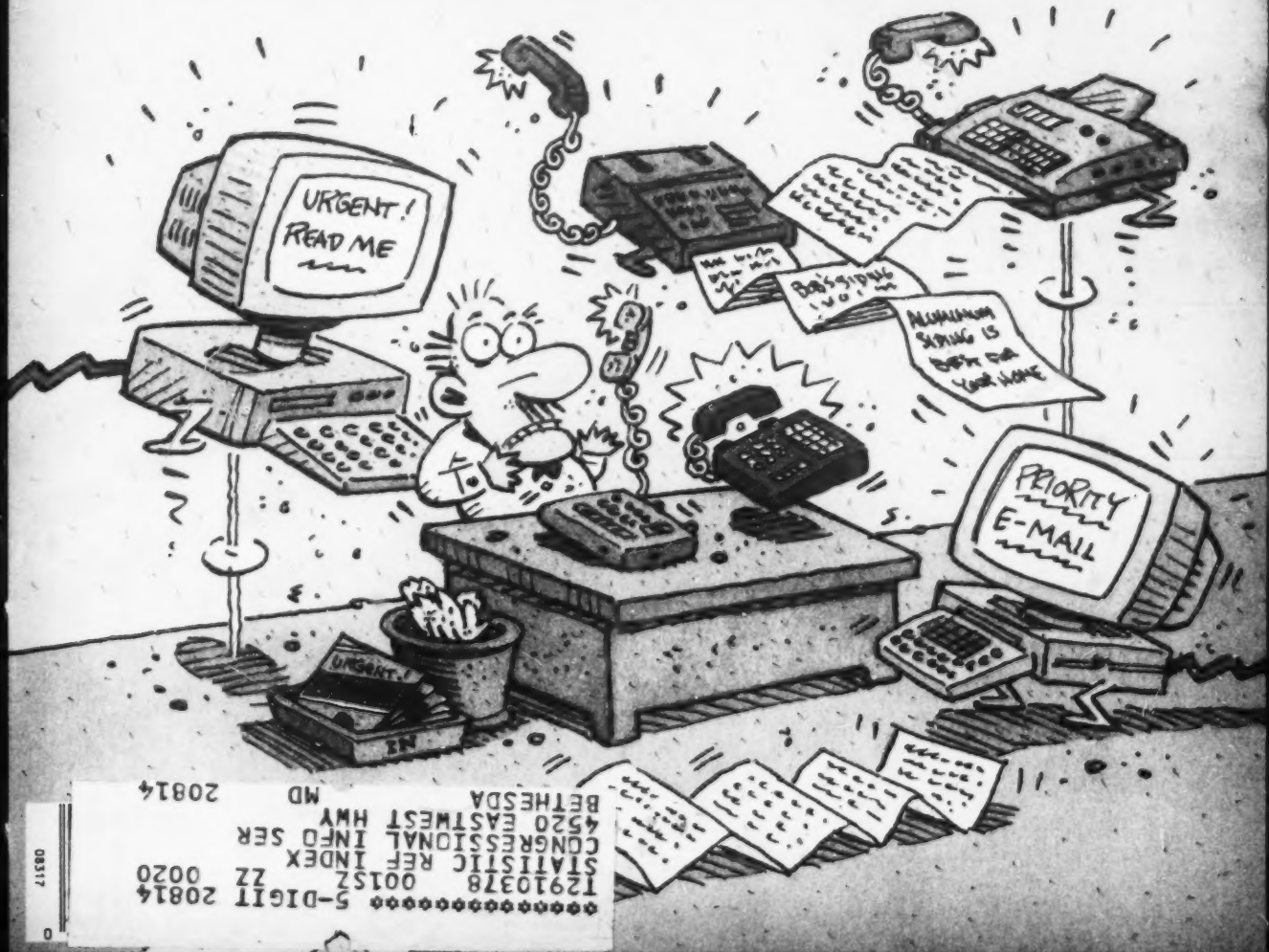

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58 *Motown's Suzanne de Passe*

JANUARY 23, 1989
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NUMBER 2

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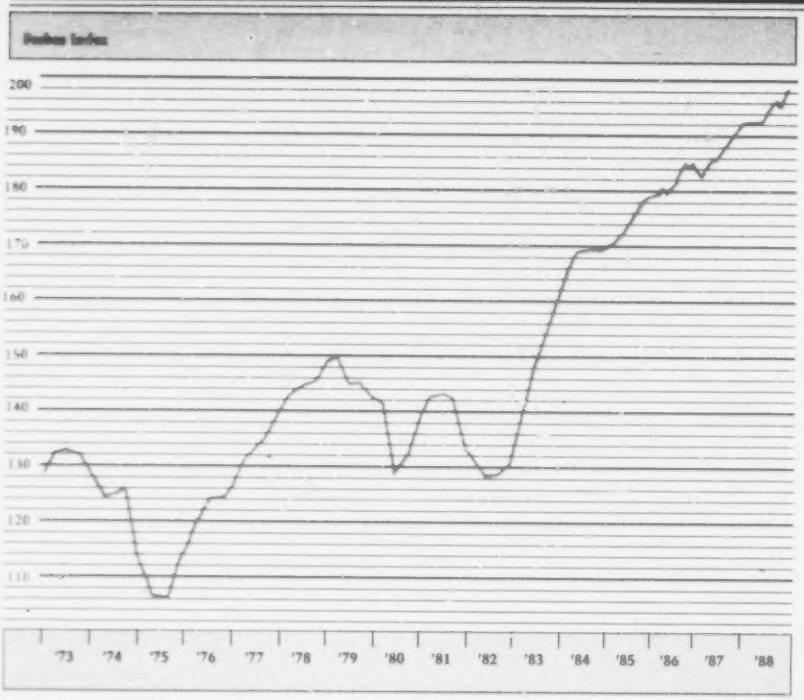
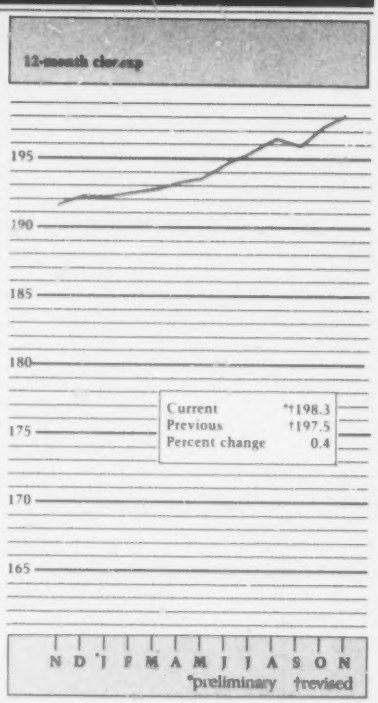
The Forbes Index





Cross currents. Forbes Index components are putting out mixed signals. The best news is in the Consumer Price Index component, up just 0.1% in November, smallest monthly increase of the year to date. The services component of the price index was up less than 0.2%. Manufacturers' new orders were up only 0.1%.

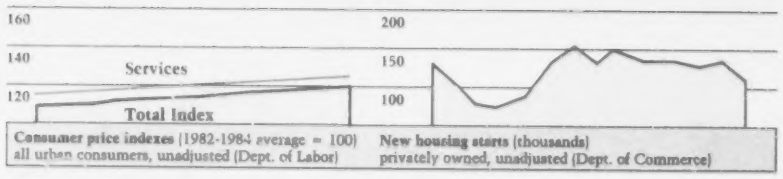
Less cheery is the word on personal income, up just 0.4% in November, second-smallest increase of the year.

Downright cheerless are the housing numbers. New housing starts of 112,600 in November (seasonally unadjusted) were 5.2% below the pace the year before. For the last 12 months residential building starts were 10.2% below the pace the year before. Rising interest rates are the main culprit behind the building slowdown.

The Forbes Index Components

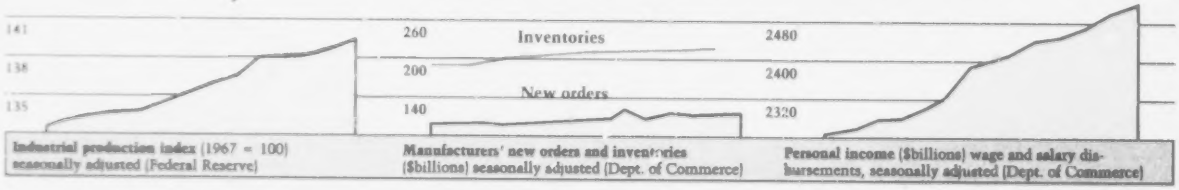
The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, Forbes monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Consumer price indexes (1982-1984 average = 100) all urban consumers, unadjusted (Dept. of Labor)

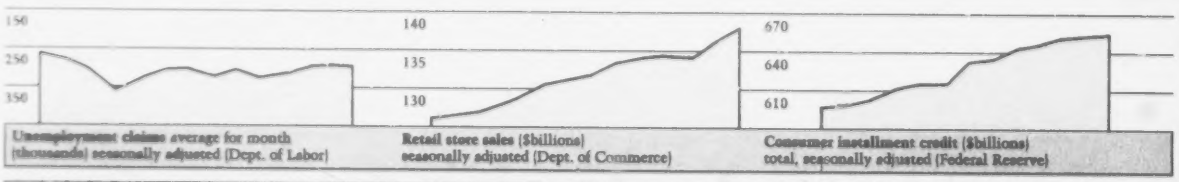
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)

Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)

Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



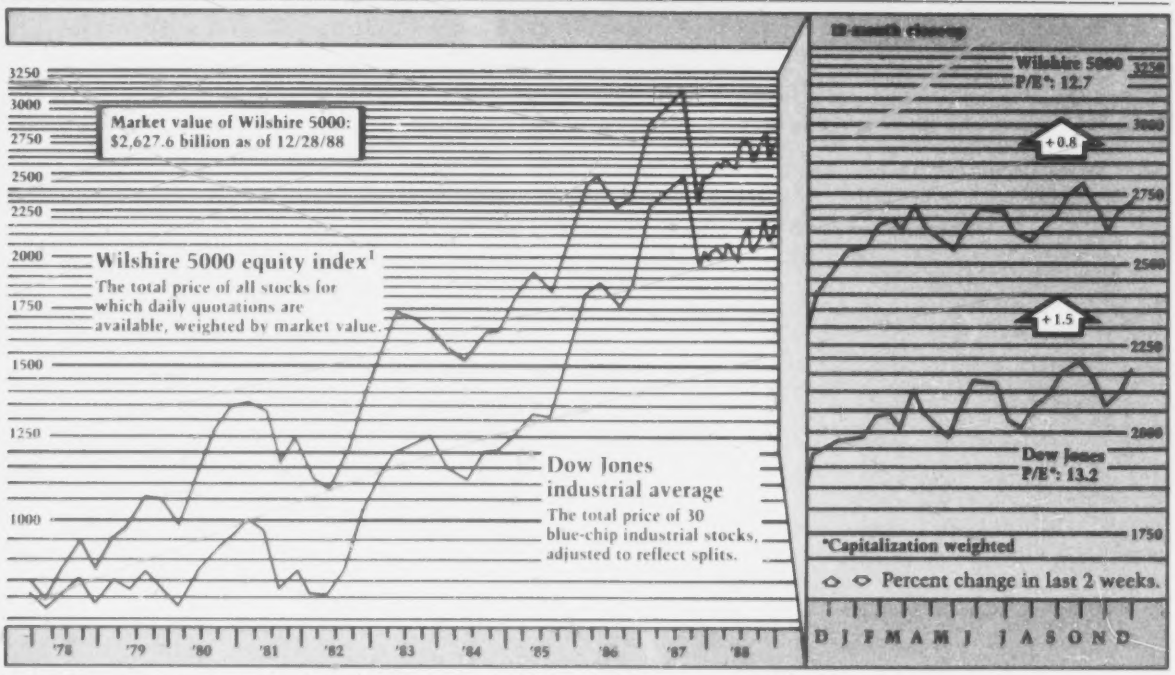
Unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)

Retail store sales ($billions) seasonally adjusted (Dept. of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Is it cheap yet? Let's sit back and review the bidding. Investors are now paying $13.20 for every dollar of net profit earned on average by the 30 stocks that make up the Dow Jones industrial average. On that arithmetic, stocks are much better buys than they were in August 1987, when the Dow P/E hit 22.2, but not so cheap as they were in August 1982, when the Dow P/E was at 10. They are now paying $12.70 for an average $1 of the Wilshire 6,000's profit. In August 1987 the Wilshire P/E was at 23.4, and in August 1982 it was at 7.1.

Could we see a repeat of 1982's multiples? There's little reason to think so. Both the Dow and the Wilshire numbers, remember, are "capitalization-weighted," with big companies exerting much greater influence on them than smaller-capitalization shares. At current earning levels, the Dow would have to drop 500 points to get down to a P/E of 10—unlikely, unless investors suddenly and seriously sell off IBM, Exxon and other important stocks.

Closeup On the Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[2]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	1.4	1.2	2.5	1.2	2.6	1.4
in last 52 weeks	12.7	12.3	11.1	12.5	17.4	14.3

Stock performance based on six key investor yardsticks

Percent change	Company size		Volatility[3]		P/E multiple		Dividend yield		Growth profile[4]		Share price	
	large	small	high	low	over 21	under 8	over 4.5%	none	high	low	over $34	under $4
in last 4 weeks	1.4	2.1	4.6	0.0	3.1	1.2	–0.5	5.0	3.0	1.4	1.4	0.9
in last 52 weeks	14.7	54.8	73.2	24.2	25.1	31.5	20.4	70.1	59.8	24.0	19.2	45.9

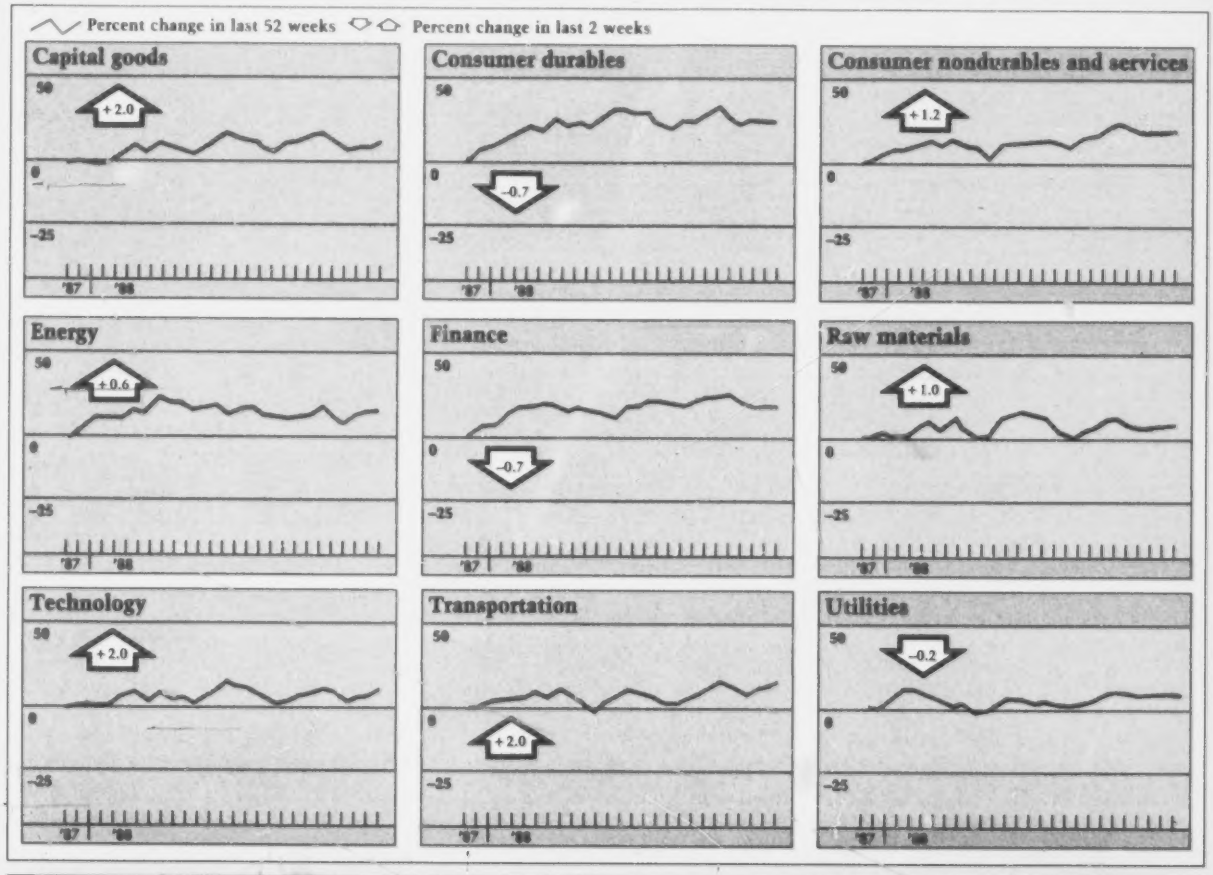
[1]Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. [2]Based on sales. [3]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. [4]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 12/28/88. Prepared by Wilshire Associates, Santa Monica, Calif.

Steven Ramos

Where the Action Is

Quantum mechanics. Raw materials as a group slightly outperformed the broad market, and the best-performing stock in the raw materials sector, Quantum Chemical, was a star—up 22% over the two-week period. On Dec. 28 this $3 billion chemical manufacturer and the largest producer of polyethylene in the U.S. announced a recapitalization plan, which included a special $50 dividend payment. On the day the news broke, the stock gained over 18 points, to 107⅛, a gain of 21%. What about the lucky holders of Quantum call options? The January 105s closed at $^{3}/_{16}$ (18¾ cents per contract) on Dec. 27. After the announcement, the option flew to 4¼—a 2,167% increase. The weakest groups during the last two weeks were consumer durables and finance; both fell 0.7%.



What the Analysts Think

A dose of reality for Genentech. Security analysts cut their 1989 earnings estimates for Genentech by 18% over the past four weeks. The stock now sells for less than a quarter of its precrash price of 65¾. But this biotechnology pioneer is still not cheap: Based on the revised 1989 earnings forecast, it has a P/E of 25.8.

Forecasting the Forbes Sales 500

Performance period	Average earnings per share	P/E
latest 12 months	$3.26	12.0
1989 estimates	3.98	9.8
1990 estimates	NA	NA

Rank based on change in estimate	Sector	Estimated 1989 EPS	Estimated 1989 P/E	% change in 1989 estimate in 2 weeks	% change in 1989 estimate in 4 weeks
1	Consumer durables	$4.91	11.2	0.82%	1.19%
2	Capital goods	3.05	12.3	0.73	0.68
3	Transportation	2.87	10.1	0.63	0.67
4	Raw materials	3.50	8.7	0.33	0.39
5	Energy	3.16	11.6	0.03	-0.18
6	Consumer nondurables	2.79	12.3	-0.04	-0.21
7	Utilities	2.54	9.8	-0.05	0.19
8	Technology	3.23	10.4	-0.19	-1.13
9	Finance	3.80	7.4	-0.80	-0.95

Earnings projections are capitalization-weighted consensus estimates from over 3,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm. NA: Not available.

Note: All data for periods ending 12/28/88. Prepared by Wilshire Associates, Santa Monica, Calif., IBES, a service of Lynch, Jones & Ryan, New York.